

REPORT OF THE AUDITOR-GENERAL TO THE WESTERN CAPE PROVINCIAL PARLIAMENT AND THE COUNCIL ON CENTRAL KAROO DISTRICT MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of Central Karoo District Municipality set out on pages 3 to 73, which comprise the statement of financial position as at 30 June 2014, the statement of financial performance, statement of changes in net assets, the cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP), the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2013 (Act No. 2 of 2013) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion the financial statements present fairly, in all material respects, the financial position of the Central Karoo District Municipality as at 30 June 2014 and its financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matter

7. I draw attention to the matters below. My opinion is not modified in respect of this matter.

Restatement of corresponding figures

8. As disclosed in note 28 to the financial statements, the corresponding figures for 30 June 2013 have been restated as a result of errors discovered during 2013-14 in the financial statements of the Central Karoo District Municipality at, and for the year ended, 30 June 2013.

Additional matters

9. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited supplementary schedules

10. The supplementary information set out on pages 74 to 82 does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

Unaudited disclosure notes

11. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

12. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report, non-compliance with legislation as well as internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters

Predetermined objectives

13. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected objectives presented in the annual performance report of the Central Karoo District Municipality for the year ended 30 June 2014:
- Objective 1: To improve and maintain our roads and promote effective and safe transport for all on page 14.
 - Objective 4: To promote a safe, healthy environment and social viability of residents through the delivery of a responsible environmental health service on pages 18 to 19.

14. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
15. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned objectives . I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information (FMPPI)*.
16. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
17. The material findings in respect of the selected objectives are as follows:

Objective 1: To improve and maintain our roads and promote effective and safe transport for all

Usefulness of reported performance information

18. The FMPPI requires the following:
 - That the Performance indicators must be well defined by having a clear data definition so that data can be collected consistently and is easy to understand and use. A total of 67% of the indicators were not well defined. This was because management did not adhere to the requirements of the FMPPI due to a lack of clear data definitions for the indicators

Reliability of reported performance information

19. I did not raise any material findings on the reliability of the reported performance information for the selected objective.

Objective 4: To promote a safe, healthy environment and social viability of residents through the delivery of a responsible environmental health service

20. I did not raise any material findings on the usefulness and reliability of the reported performance information for the selected objective.

Additional matters

21. I draw attention to the following matters. My conclusion is not modified further in respect of these matters:

Achievement of planned targets

22. Refer to the annual performance report on pages 14 to 21 for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness of the reported performance information for the selected objective reported in paragraph 19 of this report.

Unaudited supplementary information

23. The supplementary information set out on pages 22 to 53 does not form part of the annual performance report and is presented as additional information. I have not audited this information and, accordingly, I do not report thereon.

Compliance with legislation

24. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Annual financial statements

25. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of disclosure notes and corresponding figures identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Expenditure management

26. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the Municipal Finance Management Act.

Asset management

27. Capital assets were disposed of without the approval of the council as required by section 14(2)(a) of the MFMA.

Internal control

28. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the annual performance report and the findings on compliance with legislation included in this report.

Leadership

29. The accounting officer does not exercise adequate oversight responsibility over reporting to ensure complete and accurate reporting on the financial statements and over compliance with the relevant legislation, resulting in various instances of misstatements in the financial statements and non-compliance being reported. In addition, an action plan was developed to address inadequacies identified in the previous audit but this was not fully implemented or monitored.

Financial and performance management

30. Management did not adequately review the development and implementation of internal controls regarding financial and performance reporting, since material misstatements were identified in the financial statements.

Governance

31. The risk assessment and oversight processes performed did not prevent repeat audit findings during the period resulting in misstatements and non-compliance with legislation recurring in the current year.

Auditor-General

Cape Town

28 November 2014

